October 5, 2016

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

RE: Special Access for Price Cap Local Exchange Carriers (WC Docket No. 05-25); AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Service (RM-10593)

Dear Ms. Dortch:

As the Federal Communications Commission (FCC) examines the state of competition in the market for business data services (BDS), I wanted to present you with new research conducted by Georgetown Center for Business and Public Policy Senior Visiting Scholar Anna-Maria Kovacs.

In *"Business data services: The potential harm to competitive facilities deployment"* Kovacs models the effect of mandatory BDS price cuts on the free cash flows of BDS providers and concludes that BDS rate-cuts are likely to do serious damage to the financials of competitive providers, i.e. non-incumbents, as well as incumbents who provide BDS infrastructure. Because company valuations reflect multiples of cash flow, decreases in cash flow are likely to result in lower valuations. The heaviest damage is likely to be to those who are primarily facilities-based, but the free cash flows and valuations of resellers are also likely to be harmed.

Key takeaways include:

- **The very companies the FCC is arguably trying to help in this proceeding will in fact be harmed.** All BDS providers will face significant financial losses that will directly impact their ability to afford the buildout the Administration and the FCC say they want to see by 2020. The paper explores the effect of price cuts using various assumptions of providers' BDS-input-cost/BDS-revenue ratio, other variable cost/BDS revenue ratio (i.e. variable cost for inputs other than BDS), and incremental capital expenditures.

- **At the same time, the FCC is highly unlikely to advance the migration from 4G to 5G.** 5G backhaul will require far greater bandwidth than backhaul for current technologies. Thus, price cuts on TDM and low-capacity Ethernet would not impact pricing for the products needed to support 5G. At the same time, mandating price cuts for solutions like high capacity Ethernet and dark fiber which are needed for 5G will have a significant negative impact on the free cash flow of BDS providers, especiallycompetitive fiber providers, making it more difficult for them to make the business case for deployment.

Kovacs concludes that the FCC's proposals will, in fact, frustrate two of the agency's key objectives for this proceeding.

In the hope that the insights in this research may assist the Agency in its work, I respectfully submit it for your review and consideration.

Respectfully Submitted,

John W. Mayo
Professor of Economics, Business and Public Policy
Executive Director, Georgetown Center for Business and Public Policy